

Huron Academy
Sterling Heights, Michigan

Audited Financial Statements

June 30, 2006

CONTENTS

Financial Statements	<u>Page</u>
Independent Auditors Report	i - ii
Management's Discussion and Analysis	iii - viii
Basic Financial Statements	
Statement of Net Assets	1
Statement of Activities	2
Combined Balance Sheet - All Fund Types	3
Reconciliation of Total Governmental Fund Balance to Net Assets of Governmental Activities	4
Statement of Revenues, Expenditures and Changes in Fund Balance - Governmental Funds	5
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance of Governmental Funds to the Statement of Activities	6
Statement of Fiduciary Net Assets	7
Notes to Financial Statements	8 - 17
Supplemental Information	
Independent Auditors Report on Supplemental Information	18
Budgetary Comparison Schedule - Governmental Funds	19
Schedule of Revenues - Governmental Funds	20
Schedule of Expenditures - Governmental Funds	21 - 23
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	24 - 25



David M. Croskey, CPA
Thomas B. Lanni, CPA
Carolyn A. Jones, CPA

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of Huron Academy

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Huron Academy, as of and for the year ended June 30, 2006, which collectively comprise the Academy's basic financial statements listed in the table of contents. These financial statements are the responsibility of Huron Academy's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of Huron Academy as of June 30, 2006, and the respective changes in financial position, for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison information on pages iii through viii and 19, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

HURON ACADEMY **MANAGEMENT'S DISCUSSION AND ANALYSIS**

This section of Huron Academy's, "HRA", annual financial report presents our discussion and analysis of the school's financial performance during the fiscal year that ended on June 30, 2006. Please read it in conjunction with the school's financial statements, which immediately follow this section.

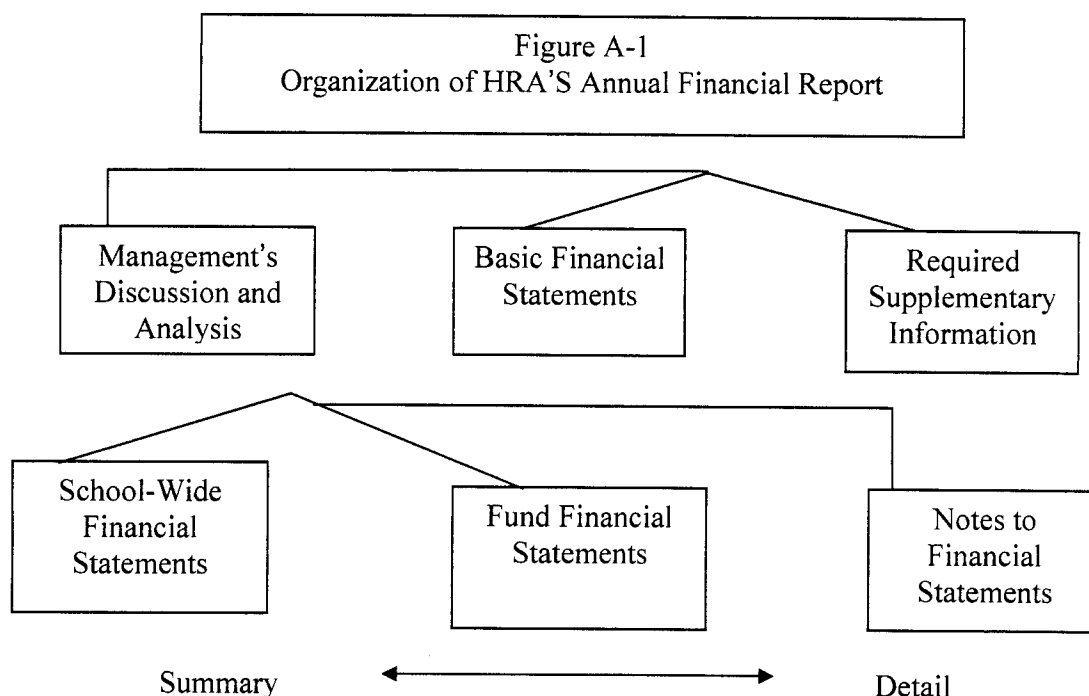
FINANCIAL HIGHLIGHTS

- ❖ General fund revenues were at \$3,683,246 while expenses were \$3,134,525.
 - Instructional Expenditures were \$1,622,963
- ❖ Blended enrollment used for state aid purposes was 464.75 compared to 478.04 last year.
- ❖ The school reduced its outstanding long-term debt, which consists primarily of bond issuances and equipment leases \$139,240.
- ❖ The school has a positive fund balance in the General Fund of \$1,364,166.
- ❖ The state increased the per pupil allowance by \$175 per student.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts – management's discussion and analysis (this section), the basic financial statements which include two kinds of statements that present different views of the school:

- ❖ The first two statements are school wide financial statements that provide both short-term and long-term information about the school's overall financial status.
- ❖ The remaining statements are fund financial statements that focus on individual parts of the school, reporting the schools operations in more detail.
- ❖ The governmental fund statements tell how basic services like regular and special education were financed.
- ❖ Fiduciary funds statements provide information about the financial relationships in which the school acts solely as a trustee or agent for the benefit of others. These consist of student activity funds held by the school on behalf of the student group.



The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the school's budget for the year. Figure A-1 shows how the various parts of this annual report are arranged and related to one another.

Figure A-2
Major Features of School-Wide and Fund Financial

Fund Financial Statements			
	School-Wide Statements	Government Funds	Fiduciary Funds
Scope	Entire school (except fiduciary funds)	The activities of the school that are not proprietary or fiduciary, such as special education and building maintenance.	Instances in which the school administers resources on behalf of someone else, such as scholarship programs and student activities monies
Required Financial Statements	*Statement of net assets *Statement of activities	*Balance sheet *Statement of revenues, expenditures and changes in fund balances	*Statement of fiduciary net assets *Statement of changes in fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter, no capital assets or long-term liabilities included	All assets and liabilities, both short-term and long-term
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year, expenditures when goods or services have been received and the related liability is due and payable	All additions and deductions during the year, regardless of when cash is received or paid

Figure A-2 summarizes the major features of the school's financial statements, including the portion of the schools activities they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis highlights the structure and contents of each of the statements.

SCHOOL-WIDE STATEMENTS

The school-wide statements report information about the school as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the school's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two school wide statements report the school's net assets and how they have changed. Net assets – the difference between the school's assets and liabilities – are one way to measure the school's financial health or position.

- ❖ Over time, increase or decreases in the school's assets are an indicator of whether its financial position is improving or deteriorating, respectively.
- ❖ To assess the overall health of the school, you need to consider additional non-financial factors such as changes in the school's enrollment and the condition of school buildings and other facilities.

FUND FINANCIAL STATEMENTS

The fund financial statements provide more detailed information about the school's funds, focusing on its most significant or "major" funds – not the school as a whole. Funds are accounting devices the school uses to keep track of specific sources of funding and spending on particular programs:

- ❖ *Governmental activities* – Most of the school's basic services are included in the general fund, such as regular and special education and administration. State foundation aid finances most of these activities.
- ❖ The school establishes other funds to control and manage money for particular purposes (like repaying its long-term debts) or to show that it is properly using certain revenues.

The school has two kinds of funds:

- ❖ *Governmental funds* – Most of the school's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the school's programs. Because this information does not encompass the additional long-term focus of the school-wide statements, we provide additional information with governmental funds statements that explain the relationship (or differences) between them.
- ❖ *Fiduciary funds* – The school is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. We exclude these activities from the school-wide financial statements because the school cannot use these assets to finance its operations.

FINANCIAL ANALYSIS OF THE SCHOOL AS A WHOLE

The comparison of current year to prior year financial information is on the following pages. See tables A-3, A-4, and A-5.

The school's financial position is the product of many factors. A new asset depreciation schedule was implemented three years ago as required by GASB 34.

School Governmental

The stability of the school's finances is a result of the following measures:

- ❖ A strong fund balance has been accumulated over the years.
- ❖ HRA consistently curtails excessive spending

General Fund Budgetary Analysis

Over the course of the year, the school reviewed the annual operating budget several times and amended the budget twice.

Financial Outlook

Huron Academy's financial forecast is optimistic heading into the 2006/2007 school year.

- ❖ The State of Michigan anticipates a \$210 increase in per pupil allowance.
- ❖ Increased marketing efforts is anticipated to result in an enrollment increase for 2006/2007 school year.

Table A-3
HRA's Net Assets

	<u>2006</u>	<u>2005</u>
Current and other assets	\$ 2,023,061	\$ 1,675,203
Capital assets	<u>2,447,397</u>	<u>2,520,489</u>
Total assets	4,470,458	4,195,692
Long-term debt outstanding	2,495,000	2,645,000
Other liabilities	<u>372,517</u>	<u>226,104</u>
Total liabilities	<u>2,867,517</u>	<u>2,871,104</u>
Total net assets	<u><u>\$ 1,602,941</u></u>	<u><u>\$ 1,324,588</u></u>

Table A-4
Changes in HRA's Net Assets

	<u>2006</u>	<u>2005</u>
Revenues:		
Program revenues:		
Charges for services	\$ 76,708	\$ 76,464
Federal and state operating grants	412,236	308,601
General revenues:		
State aid - unrestricted	3,194,960	3,279,358
Miscellaneous	<u>64,191</u>	<u>37,319</u>
Total revenues	3,748,095	3,701,742
Expenses:		
Instruction	1,214,804	1,353,079
Support services	1,955,068	1,817,991
Interest on long-term debt	187,605	193,222
Depreciation	<u>112,265</u>	<u>108,344</u>
Total expenses	<u>3,469,742</u>	<u>3,472,636</u>
Change in net assets	<u><u>\$ 278,353</u></u>	<u><u>\$ 229,106</u></u>

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

By the end of 2006, the school had invested \$2,941,177 in capital assets, including facilities, computers and software. This amount represents a net change of \$39,173 from last year. (More detailed information about capital assets can be found in Note 7 to the financial statements.)

Building	\$ 2,573,096
Equipment	<u>368,081</u>
Subtotal	2,941,177
Accumulated depreciation	<u>(493,780)</u>
Net book value of assets	<u>\$ 2,447,397</u>

Long-Term Debt

At year end the school had debt of \$2,645,000 consisting of bond issuances.

- ❖ The school continued to pay down its debt, retiring \$139,240 of the amounts due on the above mentioned bond issuances and retiring an equipment lease.

FACTORS BEARING ON THE SCHOOL'S FUTURE

- ❖ Marketing campaign to increase enrollment to 500.
- ❖ Increase and stabilization of state aid foundation grant.
- ❖ Continued strategic planning to further align school's mission and goals.

CONTACTING THE SCHOOL'S FINANCIAL MANAGEMENT

This financial report is designed to provide our students, parents and creditors with a general overview of the school's finances and to demonstrate the school's accountability for the money it receives. If you have questions about this report or need additional information, contact the school's office at:

Huron Academy, 11401 Metropolitan Parkway, Sterling Heights, MI 48312

HURON ACADEMY

STATEMENT OF NET ASSETS JUNE 30, 2006

ASSETS

Current Assets

Cash and cash equivalents	\$ 832,216
Investments	466,737
Accounts receivable	2,133
Due from other governmental units	656,134
Prepaid expenses	<u>65,841</u>
Total current assets	2,023,061

Facilities, Furniture and Equipment

At cost less accumulated depreciation of \$ 493,780	<u>2,447,397</u>
Total assets	<u><u>\$ 4,470,458</u></u>

LIABILITIES AND NET ASSETS

Current Liabilities

Accounts payable	\$ 44
Accrued expenses	222,473
Long-term debt - current portion	<u>150,000</u>
Total current liabilities	372,517

Long-Term Debt - Long-Term Portion	2,495,000
------------------------------------	-----------

Net Assets

Restricted for future projects	500,000
Restricted for debt service	(197,604)
Unrestricted	<u>1,300,545</u>
Total net assets	<u>1,602,941</u>
Total liabilities and net assets	<u><u>\$ 4,470,458</u></u>

See accompanying notes to financial statements

HURON ACADEMY

STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2006

Functions	Expenses	Program Revenues		Net (Expense) Revenues and Changes in Net Assets
		Charges for Services	Operating Grants	Government Type Activities
Elementary school	\$ 1,214,804	\$ -	\$ 73,715	\$ (1,141,089)
Middle school	120,375	-	8,190	(112,185)
Special education	210,588	-	300,183	89,595
Compensatory education	77,196	-	-	(77,196)
Support services	103,877	-	-	(103,877)
General administration	69,454	-	-	(69,454)
Executive administration	393,395	-	-	(393,395)
Building administration	360,290	-	-	(360,290)
Lunch program	74,520	20,304	28,725	(25,491)
Business support services	229,434	-	-	(229,434)
Operations and maintenance	263,206	-	-	(263,206)
Custody and care of children	52,733	42,007	1,423	(9,303)
Depreciation	112,265	-	-	(112,265)
Interest	187,605	14,397	-	(173,208)
Total primary government	<u>\$ 3,469,742</u>	<u>\$ 76,708</u>	<u>\$ 412,236</u>	<u>(2,980,798)</u>
General Purpose Revenues:				
State school aid - unrestricted				3,194,960
Miscellaneous				<u>64,191</u>
Total general purpose revenues				<u>3,259,151</u>
Excess of revenues over expenses				278,353
Net assets - July 1, 2005				<u>1,324,588</u>
Net assets - June 30, 2006				<u>\$ 1,602,941</u>

See accompanying notes to financial statements

HURON ACADEMY

COMBINED BALANCE SHEET - ALL FUND TYPES JUNE 30, 2006

ASSETS

	<u>General</u>	<u>Debt Service</u>
Cash and cash equivalents	\$ 832,216	\$ -
Investments	-	466,737
Accounts receivable	2,133	-
Due from other governmental units	656,135	-
Prepaid expenses	65,841	-
	<hr/>	<hr/>
Total assets	<u>\$ 1,556,325</u>	<u>\$ 466,737</u>

LIABILITIES AND FUND BALANCES

Liabilities

Accounts payable	\$ 44	\$ -
Accrued expenses	192,115	-
	<hr/>	<hr/>
Total liabilities	192,159	-

Fund Balance

Restricted for future projects	500,000	-
Designated for debt service	-	466,737
Unreserved:		
Undesignated	864,166	-
	<hr/>	<hr/>
Total liabilities and fund balances	<u>\$ 1,556,325</u>	<u>\$ 466,737</u>

See accompanying notes to financial statements

HURON ACADEMY

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCE TO NET ASSETS OF GOVERNMENTAL ACTIVITIES JUNE 30, 2006

Amounts reported for governmental activities in the statement of net assets are different because:

Total Governmental Fund Balances	\$ 1,830,903
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. The cost of the assets is \$2,941,177 and the accumulated depreciation is \$493,781.	2,447,396
Interest is not payable until due in governmental activities and, therefore, is not recorded in the funds.	(30,358)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.	<u>(2,645,000)</u>
Net Assets of Governmental Activities	<u><u>\$ 1,602,941</u></u>

See accompanying notes to financial statements

HURON ACADEMY

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - GOVERNMENTAL FUNDS FOR THE YEAR ENDED JUNE 30, 2006

	<u>General</u>	<u>School Service</u>	<u>Debt Service</u>
Revenues			
Local sources	\$ 106,198	\$ 20,304	\$ 14,397
State sources	3,374,980	1,423	-
Federal sources	202,068	28,725	-
Total governmental fund revenues	<u>3,683,246</u>	<u>50,452</u>	<u>14,397</u>
Expenditures			
Elementary school	1,214,804	-	-
Middle school	120,375	-	-
Special education	210,588	-	-
Compensatory education	77,196	-	-
Support services	103,877	-	-
General administration	69,454	-	-
Executive administration	393,395	-	-
Building administration	360,290	-	-
Lunch program	-	74,520	-
Business support services	229,434	-	-
Operations and maintenance	263,206	-	-
Custody and care of children	52,733	-	-
Capital outlay	39,173	-	-
Debt principal and interest	-	-	326,845
Total governmental fund expenditures	<u>3,134,525</u>	<u>74,520</u>	<u>326,845</u>
Excess (deficiency) of revenues over expenditures	548,721	(24,068)	(312,448)
Other Financing Sources (Uses)			
Operating transfers in	-	24,068	309,486
Operating transfers out	(333,554)	-	-
Total other financing sources (uses)	<u>(333,554)</u>	<u>24,068</u>	<u>309,486</u>
Excess of revenues and other financing sources over expenditures and other uses	215,167	-	(2,962)
Fund balance - July 1, 2005	<u>1,148,999</u>	<u>-</u>	<u>469,699</u>
Fund balance - June 30, 2006	<u>\$ 1,364,166</u>	<u>\$ -</u>	<u>\$ 466,737</u>

See accompanying notes to financial statements

HURON ACADEMY

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2006

Amounts reported for governmental activities in the statement of activities are different because:

Net Change in Fund Balances - Total Governmental Funds	\$	212,205
---	-----------	----------------

Governmental funds report capital outlays as expenditures. However, in the statement of activities, assets are capitalized and the cost is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.

Capital outlays	\$ 39,173	
Depreciation expense	<u>(112,265)</u>	(73,092)

The governmental funds report loan proceeds as an other financing source, while repayment of loan principal is reported as an expenditure. Interest is recognized as an expenditure in the governmental funds when it is due. In the statement of activities, interest expense is recognized as it accrues, regardless of when it is due. The net effect of these differences in the treatment of general loan obligations is as follows:

Repayment of loan principal	<u>139,240</u>
-----------------------------	----------------

Change in Net Assets of Governmental Activities	\$	<u>278,353</u>
--	-----------	-----------------------

See accompanying notes to financial statements

HURON ACADEMY
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUND
FOR THE YEAR ENDED JUNE 30, 2006

ASSETS

	<u>Agency</u>
Cash and cash equivalents	<u>\$ 11,153</u>
Total assets	<u><u>\$ 11,153</u></u>

LIABILITIES

Due to student groups	<u>\$ 11,153</u>
Total liabilities	<u><u>\$ 11,153</u></u>

See accompanying notes to financial statements

HURON ACADEMY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

NOTE 1 - Summary of Significant Accounting Policies

The accounting policies of Huron Academy (the "Academy") conform to generally accepted accounting principles applicable to public school academies. The following is a summary of the significant accounting policies:

Reporting Entity

Huron Academy was formed as a public school academy pursuant to the Michigan School Code of 1976, as amended by Act No. 362 of the Public Acts of 1993 and Act No. 416 of the Public Acts of 1994. The Academy filed articles of incorporation as a nonprofit corporation pursuant to the provisions of the Michigan Nonprofit Corporation Act of 1982, as amended, in June 1999, and began operation in July 1999.

In August 1999, the Academy entered into a five-year contract with Ferris State University's Board of Trustees to charter a public school academy. The contract was subsequently renewed for an additional five years in July, 2004. The contract requires the Academy to act exclusively as a governmental agency and not undertake any action inconsistent with its status as an entity authorized to receive state school aid funds pursuant to the State constitution. The University's Board of Trustees is the fiscal agent for the Academy and is responsible for overseeing the Academy's compliance with the contract and all applicable laws. The Academy pays Ferris State University's Board of Trustees three percent of state aid as administrative fees. Total administrative fees paid for the year ended June 30, 2006 were approximately \$101,250.

In July 2005, the Academy entered into a four-year agreement with CS Partners, "CSP". Under the terms of this agreement, CSP provides a variety of services including management curriculums, educational programs and teacher training. The Academy is obligated to pay CSP nine percent of its applicable revenues from federal, state, county and local governments. The total paid for these services amounted to approximately \$292,145 for the year ended June 30, 2006.

The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operation of financial relationships with the public school academy. Based on application of criteria, the entity does not contain component units.

Fund Financial Statements

Fund financial statements report detailed information about the Academy. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column. The Academy has designated all of its funds as major.

Basis of Presentation - Fund Accounting

The accounts of the Academy are organized on the basis of funds. The operations of a fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenue and expenditures. Government resources are allocated to and accounted for in individual funds based on the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped, in the combined basic financial statements in this report, into governmental fund types as follows:

HURON ACADEMY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

NOTE 1 - Summary of Significant Accounting Policies - Continued

Governmental Funds

A governmental fund is a fund through which most academy functions typically are financed. The acquisition, use and balances of the Academy's expendable financial resources and the related current liabilities are accounted for through a governmental fund.

General Fund - The general fund is used to record the general operations of the Academy pertaining to education and those operations not provided for in other funds. Included are all transactions related to the approved current operating budget.

School Service Fund - The school service fund is used to account for the food service program operations. The school service fund is a subsidiary operation and is an obligation of the general fund. Therefore any shortfall in the school service fund will be covered by an operating transfer from the general fund. The school service fund does not maintain its own assets and liabilities; accordingly, no balance sheet is presented for this fund.

Debt Service Fund - The debt service fund is used to record certain revenue and the payment of interest, principal and other expenditures on long-term debt.

Fiduciary Fund - The fiduciary fund is used to account for assets held by the Academy in a trustee capacity or as an agent. The agency fund is custodial in nature and does not involve the measurement of results of operations.

Activity (Agency) Fund - The Academy presently maintains an activity fund to record the transactions of a student group for school and school-related purposes. The fund is segregated and held in trust for the students.

Governmental and agency funds utilize the modified accrual basis of accounting. Modifications in such method from the accrual basis are as follows:

- a. Revenue that is both measurable and available for use to finance operations is recorded as revenue when earned. Other revenue is recorded when received.
- b. Payments for inventorable types of supplies, which are not significant at year end, are recorded as expenditures at the time of purchase.
- c. Principal and interest of general long-term debt are not recorded as expenditures until their due dates.
- d. The State of Michigan utilizes a foundation allowance funding approach, which provides for specific annual amount of revenue per student based on a state-wide formula. The foundation allowance is funded from a combination of state and local sources. Revenue from state sources is primarily governed by the School Aid Act and the School Code of Michigan. The state portion of the foundation is provided from the State's School Aid Fund and is recognized as revenue in accordance with state law. A major portion of the Academy's revenue is derived from this state aid. As such, the Academy is considered to be economically dependent on this aid. The Academy's existence is dependent upon qualification for such aid.

HURON ACADEMY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

NOTE 1 - Summary of Significant Accounting Policies - Continued

Government Wide Financial Statements

The government-wide financial statements (i.e. the statement of Net Assets and the Statement of Activities) report information on all of the non-fiduciary activities of the primary government. The government-wide financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. This approach differs from the manner in which governmental fund financial statements are prepared. Therefore, governmental fund financial statements include reconciliations with brief explanations to better identify the relationships between the government-wide statements and the statements for governmental funds.

The government-wide Statement of Activities presents a comparison between expenses, and program revenues for each segment of the business-type activities of the Academy and for each governmental program. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. The Academy does not allocate indirect expenses to programs. Program revenues include charges paid by the recipients of the goods or services offered by the programs and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues not classified as program revenues are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which each program or function is self financing or draws from the general revenues of the Academy.

Net assets should be reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements.

Cash and Cash Equivalents

The Academy's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with maturities of three months or less from the date of acquisition.

Receivables

Receivables at June 30, 2006 consist of state school aid due from the State of Michigan. All receivables are expected to be fully collected in July and August of 2006 and are considered current for the purposes of these basic financial statements.

HURON ACADEMY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

NOTE 1 - Summary of Significant Accounting Policies - Continued

Deferred Revenue

Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Grants and entitlements received before the eligibility requirements are met and recorded as deferred revenue.

Prepaid Assets

Payments made to vendors for services that will benefit periods beyond June 30, 2006, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure is reported in the year in which services are consumed.

Capital Assets and Depreciation

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. The Academy follows the policy of not capitalizing assets with a useful life of less than one year. The Academy does not possess any infrastructure assets.

All reported capital assets, with the exception of land, are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

Building and improvements	10 - 50 years
Furniture and equipment	3 - 15 years
Computers and software	3 - 10 years

Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements. In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resources. However, the non-current portion of capital leases that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they will be paid with current, expendable, available financial resources. In general, payments made within sixty days after year-end are considered to have been made with current available financial resources. Other long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund financial statements until due.

Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for acquisition, construction, or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Academy or through external restrictions imposed by creditors, grantors or laws of regulations of other governments.

HURON ACADEMY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

NOTE 1 - Summary of Significant Accounting Policies - Continued

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance of amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designation of fund balance represents tentative management plans that are subject to change.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

NOTE 2 - Stewardship, Compliance and Accountability

Annual budgets are adopted on a consistent basis with accounting principles generally accepted in the United States of America and state law for the general fund. All annual appropriations lapse at fiscal year end and encumbrances are not formally recorded.

The budget document presents information by fund and function. The legal level of budgetary control adopted by the governing body is the function level. State law requires the Academy to have its budget in place by July 1. Expenditures in excess of amounts budgeted is a violation of Michigan Law. The Academy is required by law to adopt a general fund budget. The Academy originally adopted only a general fund budget, which includes traditional debt service fund revenues and expenditures and school service fund revenue and expenditures. For the financial statement presentation these amounts are shown as a separate debt service and school service fund. During the year ended June 30, 2006 the budget was amended in a legally permissible manner.

The budget statement (budgetary comparison schedule - governmental funds) is presented on the combined statement of revenue, expenditures, and fund balances. Budget overruns are as follows:

	<u>Budget</u>	<u>Actual</u>
General Fund		
Support service	\$ 102,846	\$ 103,877
School Service Fund		
Lunch program	73,466	74,520

HURON ACADEMY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

NOTE 3 - Deposits and Investments

The Academy maintains cash balances at various financial institutions. The balances are insured by the Federal Deposit Insurance Corporation up to \$100,000 per financial institution. The Academy's uninsured and uncollateralized cash balance as of June 30, 2006 amounted to \$768,987. The Academy's investments at June 30, 2006 were comprised of fund shares that had a carrying amount and market value of \$466,737. These investments are held by a trustee for debt service on the Certificates of Participation as described in Note 9. The investments are in mutual funds that invest solely in US Treasury obligations. The Academy has not adopted a formal investment policy.

NOTE 4 - Due From Other Governmental Units

Amounts due from other governmental units at year end consists of the following:

State aid	\$ 589,331
Special education	17,230
At risk	7,343
Federal grants	<u>42,230</u>
Total	<u>\$ 656,134</u>

NOTE 5 - Prepaid Expenses

Amounts prepaid at year end consist of the following:

Insurance	\$ 26,549
Payroll	<u>39,292</u>
Total	<u>\$ 65,841</u>

HURON ACADEMY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

NOTE 7 - Accrued Expenses

Amounts accrued at June 30, 2006 consist of the following:

	<u>Net Assets</u>	<u>Funds</u>
Oversight fees	\$ 17,678	\$ 17,678
Purchased services - payroll and benefits	174,437	195,812
Interest	30,358	-
Total	<u>\$ 222,473</u>	<u>\$ 213,490</u>

NOTE 8 - Capital Assets

Capital asset activity of the Academy's governmental activities was as follows:

	<u>Balance July 1, 2005</u>	<u>Additions</u>	<u>Balance June 30, 2006</u>
Building and leasehold improvements	\$ 2,560,321	\$ 12,775	\$ 2,573,096
Furniture and equipment	313,080	14,000	327,080
Computer equipment	28,603	12,398	41,001
Subtotal	2,902,004	39,173	2,941,177
Accumulated depreciation	381,515	112,265	493,780
Net book value of assets	<u>\$ 2,520,489</u>	<u>\$ (73,092)</u>	<u>\$ 2,447,397</u>

Depreciation expense was not charged to activities as the Academy considers its assets to impact multiple activities and allocation is not practical.

HURON ACADEMY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

NOTE 9 - Long-Term Obligation Payable

The following is a summary of long-term obligations for the Academy for the year ended June 30, 2006:

	Balance 7/1/2005	Additions	Retirements & Payments	Balance 6/30/2006	Due Within One Year
Capital Lease	\$ 4,240	\$ -	\$ 4,240	\$ -	\$ -
Certificates of Participation	2,780,000	-	135,000	2,645,000	150,000
Total	<u>\$2,784,240</u>	<u>\$ -</u>	<u>\$ 139,240</u>	<u>\$ 2,645,000</u>	<u>\$ 150,000</u>

The Academy has issued Certificates of Participation bearing interest at an average rate of 6.88 % through the year ended June 30, 2017. The obligations require semi-annual interest payments due on November 1st and May 1st and an annual payment of principal due on November 1st beginning in 2004. The certificates are collateralized by a mortgage on the Academy's facility as well as a pledge for 20% of State School Aid payments and funds held in trust for debt service.

Following are maturities of long-term obligations principal and interest for each of the next five years and in total:

	Principal	Interest
2007	\$ 150,000	\$ 177,088
2008	160,000	166,625
2009	170,000	155,488
2010	185,000	143,506
2011	195,000	130,681
2012 - 2017	1,785,000	447,425

HURON ACADEMY

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2006

NOTE 10 - Operating Lease

The Academy has entered into two operating lease agreements with an unrelated third party for building and land. The Academy is responsible for all costs and expenses related to the property. The Academy is required to maintain adequate property and liability insurance coverage as well as maintain the property in like condition as at the inception of the lease term. The rental payments for the building lease, which began in September 2004, are \$8,750 for months 1-11, and \$35,750 for the 12th month for the first 3 years, and \$11,000 a month for years 4 and 5. The land rent payments are \$5,000 per month for the first year, \$5,500 for years 2005 through 2010, \$6,050 for years 2010 through 2015, \$6,655 for years 2015 through 2020, and \$7,321 for years 2020-2026.

The approximate amount of lease obligations coming due during the next five years and in total are as follows:

	<u>Building</u>	<u>Land</u>
2006	\$ 167,750	\$ 65,000
2007	167,750	66,000
2008	132,000	66,000
2009	132,000	66,000
2010	22,000	66,000
2011 - 2015	-	361,900
2016 - 2020	-	398,090
2021 - 2025	-	437,899
2026	-	14,641

Total rent expense included in the determination of net earnings for the year ended June 30, 2006 amounted to \$197,000.

NOTE 11 - Retirement Plan

All leased employees of the Academy are eligible to participate in a retirement plan established by CSP which qualifies under the provisions of Section 401(k) of the Internal Revenue Code. The Academy, under this plan, will contribute 4% of salaries regardless of the amount the employee contributes. The Academy will additionally match up to 4% of employee contributed funds. Eligible employees may contribute up to 15% of their salaries under the terms of this plan. Total Academy contributions to the plan amounted to \$111,273 for the year ended June 30, 2006.

HURON ACADEMY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

NOTE 12 - Interfund Transfers

During the normal course of the school year the Academy transferred amounts between its three major funds as follows:

	<u>General</u>	<u>Debt Service</u>	<u>School Service</u>
Transfers In	\$ -	\$ 309,486	\$ 24,068
Transfers Out	333,554	-	-

As stipulated by the Academy's Certificates of Participation as described in Note 9, the Academy must transfer 20% of its state aid to a trustee. The trustee retains the required portion needed for debt service and returns the remainder to the Academy. This accounts for the major activity in the Academy's interfund transfer account.

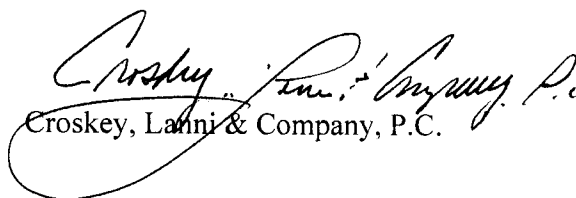
NOTE 13 - Risk Management

The Academy is exposed to various risks of loss related to property loss, torts, errors and omissions and employee injuries (worker's compensation), as well as medical benefits provided to employees. The Academy has purchased commercial insurance for all claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTAL INFORMATION

**To the Board of Directors
of Huron Academy**

We have audited the accompanying financial statements of Huron Academy for the year ended June 30, 2006. Our audit was made for the purpose of forming an opinion on the financial statements taken as a whole. The additional information listed in the table of contents is presented for purposes of additional analysis and is not required as part of the financial statements of Huron Academy. This information has been subjected to the procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.


Croskey, Lanni & Company, P.C.

September 15, 2006
Rochester, Michigan

HURON ACADEMY

REQUIRED SUPPLEMENTAL INFORMATION BUDGETARY COMPARISON SCHEDULE - GOVERNMENTAL FUNDS FOR THE YEAR ENDED JUNE 30, 2006

	General		
	Original Budget	Final Budget	Actual
Revenues			
Local sources	\$ 80,067	\$ 89,948	\$ 106,198
State sources	3,506,331	3,375,088	3,374,980
Federal sources	182,298	179,076	202,068
Total governmental fund revenues	3,768,696	3,644,112	3,683,246
Expenditures			
Elementary school	1,143,664	1,261,965	1,214,804
Middle school	289,416	132,283	120,375
Special education	219,840	215,336	210,588
Compensatory education	69,000	88,143	77,196
Support services	126,780	102,846	103,877
General administration	21,700	77,345	69,454
Executive administration	496,018	394,172	393,395
Building administration	369,650	385,740	360,290
Lunch program	-	-	-
Business support services	230,075	234,950	229,434
Operations and maintenance	281,565	291,256	263,206
Custody and care of children	57,825	61,995	52,733
Capital outlay	31,000	43,775	39,173
Debt principal and interest	-	-	-
Total governmental fund expenditures	3,336,533	3,289,806	3,134,525
Excess (deficiency) of revenues over expenditures	432,163	354,306	548,721
Other Financing Sources (Uses)			
Operating transfers in	-	-	-
Operating transfers out	(377,100)	(347,621)	(333,554)
Total other financing sources (uses)	(377,100)	(347,621)	(333,554)
Excess of revenues and other financing sources over expenditures and other uses	55,063	6,685	215,167
Fund balance - July 1, 2005	1,148,999	-	1,148,999
Fund balance - June 30, 2006	\$ 1,204,062	\$ 6,685	\$ 1,364,166

See accompanying notes to financial statements

School Service			Debt Service		
Original Budget	Final Budget	Actual	Original Budget	Final Budget	Actual
\$ 18,377	\$ 20,000	\$ 20,304	\$ -	\$ -	\$ 14,397
-	-	1,423	-	-	-
11,639	18,703	28,725	-	-	-
30,016	38,703	50,452	-	-	14,397
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
61,812	73,466	74,520	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	345,304	312,858	326,845
61,812	73,466	74,520	345,304	312,858	326,845
(31,796)	(34,763)	(24,068)	(345,304)	(312,858)	(312,448)
31,796	34,763	24,068	345,304	312,858	309,486
-	-	-	-	-	-
31,796	34,763	24,068	345,304	312,858	309,486
-	-	-	-	-	(2,962)
-	-	-	469,699	469,699	469,699
\$ -	\$ -	\$ -	\$ 469,699	\$ 469,699	\$ 466,737

HURON ACADEMY

SCHEDULE OF REVENUES - GOVERNMENTAL FUNDS FOR THE YEAR ENDED JUNE 30, 2006

	<u>General</u>	<u>School Service</u>	<u>Debt Service</u>
Local Sources			
Custody and care of children	\$ 42,007	\$ -	\$ -
FSU grant	13,681	-	-
Rental income	7,200	-	-
Food service	-	20,304	-
Fundraiser	21,000	-	-
Interest income	-	-	14,397
Miscellaneous	22,310	-	-
	<hr/>	<hr/>	<hr/>
Total local sources	106,198	20,304	14,397
State Sources			
State aid	3,194,960	-	-
At risk	40,391	-	-
Special education	139,629	-	-
Child care	-	1,423	-
	<hr/>	<hr/>	<hr/>
Total state sources	3,374,980	1,423	-
Federal Sources			
Special education	113,550	-	-
National lunch program	-	28,725	-
Title I	32,614	-	-
Title II-A	7,623	-	-
Title II-D	608	-	-
Homeland security grant	300	-	-
Special ed millage grant	47,004	-	-
Title V	369	-	-
	<hr/>	<hr/>	<hr/>
Total federal sources	202,068	28,725	-
	<hr/>	<hr/>	<hr/>
Total governmental fund revenues	<u>\$ 3,683,246</u>	<u>\$ 50,452</u>	<u>\$ 14,397</u>

See independent auditor report on supplemental information

HURON ACADEMY

SCHEDULE OF EXPENDITURES - GOVERNMENTAL FUNDS FOR THE YEAR ENDED JUNE 30, 2006

	General	Debt Service	School Service
Elementary School			
Purchased services - salaries	\$ 857,297	\$ -	\$ -
Purchased services - benefits	209,926	-	-
Purchased services - taxes	74,638	-	-
Workshops and conferences	935	-	-
Teaching supplies and other	24,617	-	-
Textbooks	47,391	-	-
Total elementary school	1,214,804	-	-
Middle School			
Purchased services - salaries	95,938	-	-
Purchased services - benefits	15,471	-	-
Purchased services - taxes	8,966	-	-
Total middle school	120,375	-	-
Special Education			
Purchased services - salaries	149,203	-	-
Purchased services - benefits	47,682	-	-
Purchased services - taxes	13,703	-	-
Total special education	210,588	-	-
Compensatory Education			
Purchased services - salaries	54,940	-	-
Purchased services - benefits	17,249	-	-
Purchased services - taxes	5,007	-	-
Total compensatory education	77,196	-	-
Support Services			
Purchased services - salaries	59,676	-	-
Purchased services - benefits	17,904	-	-
Purchased services - taxes	5,940	-	-
Contracted services	7,741	-	-
Materials and supplies	7,478	-	-
Workshops & conferences	5,138	-	-
Total support services	103,877	-	-

See independent auditor report on supplemental information

HURON ACADEMY

SCHEDULE OF EXPENDITURES - GOVERNMENTAL FUNDS - Continued FOR THE YEAR ENDED JUNE 30, 2006

	<u>General</u>	<u>Debt Service</u>	<u>School Service</u>
General Administration			
Audit services	10,659	-	-
Legal services	3,994	-	-
Recruiting	53,896	-	-
Miscellaneous	905	-	-
	<hr/>	<hr/>	<hr/>
Total general administration	69,454	-	-
Executive Administration			
FSU oversight fees	101,250	-	-
Management fees	292,145	-	-
	<hr/>	<hr/>	<hr/>
Total executive administration	393,395	-	-
Building Administration			
Purchased services - salaries	258,143	-	-
Purchased services - benefits	49,671	-	-
Purchased services - taxes	22,107	-	-
Workshops and conferences	2,709	-	-
Materials and supplies	16,572	-	-
Postage	3,029	-	-
Dues and memberships	5,618	-	-
Miscellaneous	2,441	-	-
	<hr/>	<hr/>	<hr/>
Total building administration	360,290	-	-
Lunch Program			
Purchased services - salaries	-	28,333	-
Purchased services - benefits	-	5,890	-
Purchased services - taxes	-	2,739	-
Food cost	-	37,558	-
	<hr/>	<hr/>	<hr/>
Total lunch program	-	74,520	-

See independent auditor report on supplemental information

HURON ACADEMY

SCHEDULE OF EXPENDITURES - GOVERNMENTAL FUNDS - Continued FOR THE YEAR ENDED JUNE 30, 2006

	<u>General</u>	<u>Debt Service</u>	<u>School Service</u>
Business Support Services			
Rent	197,000	-	-
Liability insurance	24,321	-	-
Bank fees	8,113	-	-
Total business support services	229,434	-	-
Operations and Maintenance			
Purchased services - salaries	81,725	-	-
Purchased services - benefits	21,261	-	-
Purchased services - taxes	12,828	-	-
Utilities	42,427	-	-
Repairs and maintenance	103,426	-	-
Supplies and other	1,539	-	-
Total operations and maintenance	263,206	-	-
Custody and Care of Children			
Purchases services - salaries	46,463	-	-
Purchased services - benefits	5,448	-	-
Food	822	-	-
Total custody and care of children	52,733	-	-
Capital Outlay			
Elementary	4,613	-	-
Operations and maintenance	21,785	-	-
Site improvements	12,775	-	-
Total capital outlay	39,173	-	-
Debt Principal and Interest	-	-	326,845
Total governmental fund expenditures	<u>\$ 3,134,525</u>	<u>\$ 74,520</u>	<u>\$ 326,845</u>

See independent auditor report on supplemental information



David M. Croskey, CPA
Thomas B. Lanni, CPA
Carolyn A. Jones, CPA

Report on Internal Control Over Financial Reporting and on Compliance and
Other Matters Based on an Audit of Financial Statements Performed
in Accordance with *Government Auditing Standards*

To the Board of Directors
of Huron Academy

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Huron Academy as of and for the year ended June 30, 2006, which collectively comprise the Academy's basic financial statements and have issued our report thereon dated September 15, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

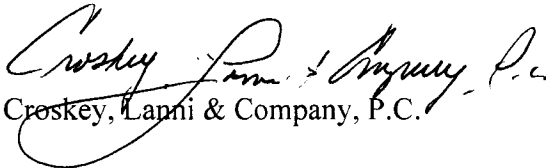
In planning and performing our audit, we considered Huron Academy's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting.

Compliance

As part of obtaining reasonable assurance about whether Huron Academy's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management, the board of directors and others within the Academy and is not intended to be and should not be used by anyone other than these specified parties.


Croskey, Lapni & Company, P.C.

September 15, 2006
Rochester, Michigan